

Ford vs. Mazda

In the early 1980s, when the American automotive industry was in a depression, Ford's top management put accounts payable—along with many other departments—under the microscope in search of ways to cut costs. Accounts payable in North America alone employed more than 500 people. Management thought that by rationalizing processes and installing new computer systems, it could reduce the head count by some 20%.

Ford was enthusiastic about its plan to tighten accounts payable—until it looked at Mazda. While Ford was aspiring to a 400-person department, Mazda's accounts payable organization consisted of a total of 5 people. The difference in absolute numbers was astounding, and even after adjusting for Mazda's smaller size, Ford figured that its accounts payable organization was five times the size it should be. The Ford team knew better than to attribute the discrepancy to calisthenics, company songs, or low interest rates.

Ford managers ratcheted up their goal: accounts payable would perform with not just a hundred but many hundreds fewer clerks. It then set out to achieve it. First, managers analyzed the existing system. When Ford's purchasing department wrote a purchase order, it sent a copy to accounts payable. Later, when material control received the goods, it sent a copy of the receiving document to accounts payable. Meanwhile, the vendor sent an invoice to accounts payable. It was up to accounts payable, then, to match the purchase order against the receiving document and the invoice. If they matched, the department issued payment.

The department spent most of its time on mismatches, instances where the purchase order, receiving document, and invoice disagreed. In these cases,

an accounts payable clerk would investigate the discrepancy, hold up payment, generate documents, and all in all gum up the works.

One way to improve things might have been to help the accounts payable clerk investigate more efficiently, but a better choice was to prevent the mismatches in the first place. To this end, Ford instituted "invoiceless processing." Now when the purchasing department initiates an order, it enters the information into an on-line database. It doesn't send a copy of the purchase order to anyone. When the goods arrive at the receiving dock, the receiving clerk checks the database to see if they correspond to an outstanding purchase order. If so, he or she accepts them and enters the transaction into the computer system. (If receiving can't find a database entry for the received goods, it simply returns the order.)

Ford's Old System

Ford's New System